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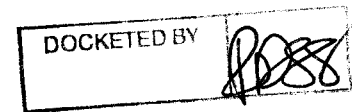
August 3, 2011

VIA HAND-DELIVERY

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

Arizona Corporation Commission
DOCKETED

AUG 3 2011



Re: *Direct Testimony Summary of AIC President Gary M. Yaquinto and Dr. Daniel G. Hansen; Docket No. G-01551A-10-0458*

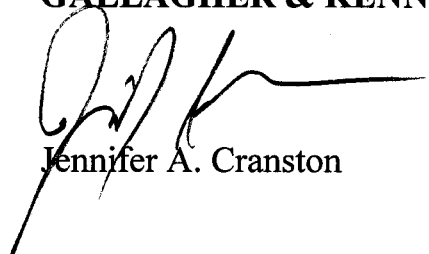
Dear Sir or Madam:

Attached are the summaries of the direct testimony of Gary Yaquinto and Daniel Hansen in support of the Proposed Settlement Agreement dated July 15, 2011.

Sincerely,

GALLAGHER & KENNEDY, P.A.

By:


Jennifer A. Cranston

JAC
18762-8/2822124

Attachment
cc (w/attachment): Parties on Docket Service List

**Original and 13 copies filed with Docket
Control this 3rd day of August, 2011.**

**Copies hand-delivered this 3rd day
of August, 2011 to:**

Paul Newman
Brenda Burns
Gary Pierce
Bob Stump
Sandra D. Kennedy

Direct Testimony Summary of Gary M. Yaquinto
Southwest Gas Corporation Rate Case
Docket No. G-01551A-10-0458

Gary Yaquinto is the President of the Arizona Investment Council ("AIC"), a non-profit association whose membership includes approximately 6,000 individuals – many of whom are debt and equity investors in Arizona utility companies and other Arizona businesses. AIC participated in the negotiations leading to and is a signatory of the Settlement Agreement dated July 15, 2011.

In his direct testimony, Mr. Yaquinto notes the need for Southwest Gas to be able to attract capital on reasonable terms so that it can provide safe, reliable and adequate natural gas services to its customers while also maintaining its financial integrity. Mr. Yaquinto also explains that a vital component of Southwest Gas's ability to achieve the Commission's Energy Efficiency Standards without depriving the Company of a realistic opportunity to recover its costs and earn a fair return is the adoption of one of the alternatives set forth in the Settlement Agreement.

AIC supports the Settlement Agreement, and specifically urges the Commission to approve Alternative B and the Decoupling mechanism contained therein. Mr. Yaquinto's testimony outlines several benefits of the Settlement Agreement and Alternative B:

- Southwest Gas's credit rating will benefit from the adoption of Decoupling, which in turn will lead to lower debt costs, improved access to capital and lower rates.
- Alternative B contains a rate case moratorium, which reduces rate case cost and frequency and also reduces regulatory uncertainty – all of which are viewed favorably by the market.
- The Settlement Agreement calls for Southwest Gas to reduce annual expenses by an average of \$2.5 million per year beginning in 2012.
- The Settlement Agreement also contains a commitment of \$1 million of shareholder funds to finance a weatherization program for low-income customers.
- The fact that the Settlement Agreement was signed and is supported by a broad array of parties with differing interests is a very positive signal to the markets concerning the Company, its regulators, customers and stakeholder groups.

Mr. Yaquinto also stresses the importance of Commission approval of one of the alternatives (preferably Alternative B) in its entirety. Each alternative was crafted through a very careful and comprehensive negotiation process, such that the exclusion of any particular term

from one of the alternatives would undermine the signatories' efforts and the compromises reached during the negotiations.

The AIC President recommends that the Commission approve the Settlement Agreement with the inclusion of Alternative B in its entirety.

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**DIRECT TESTIMONY SUMMARY OF
DR. DANIEL G. HANSEN
ON BEHALF OF THE ARIZONA INVESTMENT COUNCIL**

**SOUTHWEST GAS CORPORATION RATE CASE
DOCKET NO. G-01551A-10-0458**

SECTION 1

Dr. Daniel G. Hansen is a Vice President of Laurits R. Christensen Associates, Inc. and has spent the last 14 years providing consulting services to regulators, intervenors and the energy industry. In recent years, he has provided analysis and testimony regarding decoupling and weather normalization mechanisms for a variety of clients, including testimony on behalf of the Utah Division of Public Utilities regarding Questar Gas Company's decoupling mechanism and service on a panel before the Massachusetts Department of Public Utilities to discuss decoupling mechanisms.

SECTION 2

Dr. Hansen's direct testimony highlights four significant differences between Alternative A and Alternative B in the Settlement Agreement:

- Recovery mechanism: Alternative A contains a Lost Fixed Cost Recovery ("LFCR") mechanism, which compensates the Company only for lost revenues specifically linked to programs and measures designed to meet the Commission's required annual energy savings; Alternative B contains a revenue per customer decoupling ("Decoupling") mechanism, which adjusts rates to account for deviations between Commission authorized and actual non-gas revenue per customer.
- Rate case moratorium: Only Alternative B has a rate case moratorium, under which Southwest Gas has committed to not file a rate case prior to April 30, 2016.
- Return on equity: Alternative A allows a 9.75 ROE; Alternative B only allows 9.5.
- Monitoring/reporting: Alternative B requires the Company to make detailed filings for Staff's review on both a quarterly and annual basis; Alternative A includes only annual filings and reviews.

Dr. Hansen also identifies certain components shared by both alternatives: a weather normalization adjustment; a Company commitment to meeting certain energy efficiency requirements; a shareholder contribution of at least \$1 million over the next five years to support low-income weatherization programs; and a requirement that the Company will prepare and submit for Staff approval a customer outreach/education plan.

SECTION 3

Dr. Hansen recommends that the Commission adopt Alternative B's Decoupling mechanism for several reasons.

First, Alternative B provides the more complete solution to the Company's conservation issues. Both alternatives encourage the Company to support conservation efforts that lead to easily identifiable and measurable energy savings. But, only Alternative B removes the disincentive to support a broader range of conservation efforts (such as educational and customer outreach programs) whose benefits are more difficult to track. Also, only Alternative B removes the Company's incentive to increase use per customer.

Second, the weather normalization adjustment combines better with Decoupling than with the LFCR. This is because the weather adjustment can skew payments if the definition of "normal" weather is set too hot or too cold. Only the Decoupling mechanism in Alternative B eliminates the possibility of over or underpayments due to an inaccurate weather definition.

Third, because the LFCR in Alternative A limits the Company's cost recovery only to program-induced usage reductions, implementation of that mechanism can lead to protracted disputes regarding the amount and cause of usage reductions. Alternative B's Decoupling mechanism does not share this problem.

Finally, Decoupling can lead to improved bond ratings for Southwest Gas, which reduces borrowing costs, improves the Company's access to capital and results in lower rates over time.

SECTION 4

Dr. Hansen's testimony also addresses some consumer concerns about the concept of decoupling in general and specific consumer protections built into Alternative B.

First, Alternative B benefits consumers by requiring Southwest Gas to support the expansion of cost-effective energy efficiency programs through its EE and RET Plan (which provides for energy savings of at least 1,250,000 therms within nine months of Commission approval) as well as the shareholder contribution to support low-income weatherization programs. Also, the Company can use its outreach/education program to inform customers of the benefits associated with conservation and direct them toward resources that can help them become more energy efficient.

Second, customers are protected by Alternative B's limitations on the size and frequency of rate adjustments. Under the Decoupling mechanism, the annual adjustment can be no greater than five percent of the non-gas revenues approved by the Commission. There is no cap on the amount of a rate decrease required by the mechanism.

Third, if the Commission approves Alternative B, the ROE will be only 9.5, which is 25 basis points lower than the ROE included in Alternative A. As a result of this lower ROE, the total revenue increase under Alternative B is approximately \$2.3 million less than Alternative A.

Fourth, the impact of the Decoupling mechanism on consumers will be reviewed by the Commission on a regular basis. Alternative B requires Southwest Gas to submit both quarterly and annual reports to Staff compiling a variety of data, including an annual earnings test to confirm that the Company is not earning more than its authorized 9.5 ROE. Also the Company will contribute \$75,000 to assist Staff in conducting its annual review. The results of the annual review will be subject to an Open Meeting during which the Commissioners can deliberate on whether an additional hearing is necessary to consider suspending, terminating or modifying the Decoupling mechanism. This ensures that consumers are protected if unexpected problems arise from implementation.

Dr. Hansen's testimony responds to RUCO's concern that consumers will lose their incentive to conserve if Alternative B is adopted. Dr. Hansen demonstrates how, under Decoupling, customers will continue to receive an immediate benefit from conserving gas in the form of a reduced bill. He also explains that consumers – particularly because of the Company's ACC Staff approved outreach program – will understand that even though the Company will be entitled to a future adjustment, the amount of that adjustment is quite small in comparison to the immediate savings associated with reduced energy consumption. In fact, when compared to the annual changes in gas cost since 2006, it is unlikely that customers will even notice the Decoupling adjustment.

Dr. Hansen rejects the notion that Decoupling will reduce Southwest Gas's incentive to operate efficiently, especially in light of the requirement under the Settlement Agreement that the Company reduce annual expenses by an average of \$2.5 million.

Lastly, Dr. Hansen confirms that Decoupling does not pay the Company more to produce less. He explains, similar to another well-known cost recovery mechanism, Decoupling merely allows the Company to recover a greater portion of its fixed costs by adding a small adjustment to Southwest Gas's current rate structure. Also, Dr. Hansen explains why the benefits from Decoupling are not one-sided. Under Decoupling, as customers conserve, they pay less and the Company's gas revenues will decline. Meanwhile, Decoupling compensates the Company for reductions in non-gas revenues only, which is reasonable because the Company's non-gas costs are not reduced by customer conservation (at least not in the short run). The net impact of Decoupling on the Company is that its total revenues will decline (not increase) as customers use less gas.

SECTION 5

Dr. Hansen recommends that the Commission approve the Settlement Agreement and its Alternative B because it provides a more complete solution to energy conservation issues than Alternative A.